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IN THE

Supreme Court of the United States

OCTOBER TERM 1979

No. 79-669

DAWSON CHEMICAL COMPANY,
CRYSTAL MANUFACTURING CORPORATION AND
CRYSTAL CHEMICAL COMPANY,
Petitioners,

v.

ROHM AND HAAS COMPANY,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

REPLY BRIEF OF PETITIONERS

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Petitioners have requested the granting of a writ of certiorari because

> (1) The important question of the effect of § 271(d) of the Patent Law on the control of unpatented non-staple materials has never been, but should be, decided by this Court.

(2) The Fifth Circuit Court of Appeals' construction of § 271(d) is in conflict with this Court's repeated condemnation of tying arrangements, and in particular is in conflict with *Aro II*.[1]

(3) The holding of the Fifth Circuit Court of Appeals is in conflict with the holding of the Second Circuit Court of Appeals in *Ansul Company* v. *Uniroyal, Inc.*, 448 F2d 872 (1971).

Respondent did not deal with the first of these at all, and in responding to the other two, it skirted the real issue, and ignored the relevant holdings of *Aro II* and *Ansul*.

ARGUMENT

I. It is Misuse to Use the Leverage of the Wilson Patent to Coerce Farmers into Buying Propanil from Rohm and Haas.

Contrary to respondent's argument, Petitioners do not contend that misuse results solely from the implied license which purchasers of propanil receive by the "inevitable operation of law." The misuse arises from the use of the leverage of the Wilson patent to coerce farmers into buying propanil from Rohm and Haas. By its activities, Rohm and Haas has told the farmers of the United States that they can use the patented method, if, and *only* if, they buy pro-

This is precisely the same conduct which was condemned so explicitly in the *Mercoid* cases;[2] there can no longer be

[1] Aro Manufacturing Co. v. Convertible Top Replacement Co., 377 U.S. 476, 12 L.Ed.2d 457, 84 S. Ct. 1526 (1964).

[2] Mercoid Corporation v. Mid-Continent Investment Co., 320 U.S. 661, 88 L.Ed. 376 (1943); and Mercoid Corporation v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680, 88 L.Ed. 396 (1943).

panil from Rohm and Haas. By failing to offer the farmers any alternative, Rohm and Haas has tied the granting of a license to the purchase of the unpatented material. any question that such conduct is in fact a tying arrangement. The issue here is whether the effect of § 271(d) is to excuse such a tying arrangement.

There would be no tying arrangement, no coercion and no misuse if Rohm and Haas merely sold propanil, licensed others to sell propanil and sued those who contributorily infringe by selling propanil to infringers. All of these activities are expressly permitted by § 271(d). And the implied license to use the patented method necessarily follows the sale of propanil by Rohm and Haas, but that too is not misuse. We have no quarrel with respondent on this point. The misuse results solely because, in addition, Rohm and Haas refuses to offer the farmers any alternative way to obtain a license, thereby tying the license to the purchase of the unpatented material.

II. Congress did not Intend to Allow Monopolization of Unpatented Nonstaples.

Section 271(d) was adopted to insure the right of patent owners to sell unpatented non-staples, to license others to sell them, and to sue those who contributorily infringe by selling such non-staples to infringers. It was never Congress' intention to condone tying arrangements or monopolization of unpatented non-staples. Contrary to respondent's contention, and the holding of the Fifth Circuit, the legislative history does not reveal any such intention.

It is true, as the court below noted (A-36),[3] that the Department of Justice originally opposed the enactment of § 271(d) on the alleged ground that it would effect the result

[3] "A" followed by a number indicates a page of the Appendix to the Petition.

for which respondent here contends. However, as we shall show, the Department finally dropped this contention.

Mr. T. Hayward Brown made the first statement for the Department of Justice:

> "Paragraph (d) would greatly impair the salutary doctrine that a patentee who has misused his patents may not recover in a suit for either direct or contributory infringement. The Supreme Court has held that a requirement by a patentee that users purchase from him or his exclusive licensee unpatented parts not within the scope of the patent, was a misuse of the patent and barred recovery even though contributory infringement was assumed to exist. This doctrine is a most important factor in the enforcement of the antitrust laws with respect to tying arrangements and the Department is opposed to any impairment thereof." (p. 97 of Hearings Before Subcommittee No. 3 of the Committee On The Judiciary, House of Representatives, 82nd Cong. 1st Sess. [1951]).

In later testimony on behalf of the Department of Justice, Mr. Fugate pointe dout (A-129) that "misuse of patents," insofar as it has anything to do with contributory infringement, is the doctrine that one who has a patent may not license that patent upon condition that the purchaser may not deal in the goods of another. Mr. Fugate argued, as respondent does here, that § 271(d) would allow one to enforce a patent against a contributory infringer even though there were such a tying arrangement (A-137-141). Congressmen Crumpacker insisted that Mr. Fugate was reading the language backward:

> "It seems to me that the language is clear, and it says that he shall not be denied relief or be deemed guilty of misuse because of having done any of these three things. It doesn't say the reverse of that, that because of having done these things he shall be deemed not guilty of misuse." (A-138).

After further discussion Mr. Crumpacker still insisted that "the language is clear and unequivocal, and it seems to be capable of only one interpretation, and that interpretation is entirely contrary to that which the Department seems to be placing upon it." (A-142) Mr. Fugate then stated that he believed Mr. Rich placed the same interpretation on it and asked him if he agreed. Mr. Rich answered (A-143):

> "I will agree with that to this extent: That as I testified it is necessary to make an exception to misuse to the extent that you revive contributory infringement in paragraph (c), and this whole section (d) is entirely dependent on (c). Where (d) refers to contributory infringement, it only refers to contributory infringement as defined in (c) and nothing more."

Mr. Crumpacker then stated:

> "In other words, all it says is that bringing an action against someone who is guilty of contributory infringement is not a misuse of the patent."

Mr. Rich: "That is true."

After this Mr. Fugate never again contended that his former interpretation of the language was correct. However, after some additional discussion Mr. Crumpacker came back to the question, asking Mr. Rich (A-151):

> "As you interpret this paragraph (d) as it now reads, would it in any way prevent a court from holding the monopolistic practices referred to as being a misuse of a patent? That is, where a patentee has actually been engaged in *trying to gain a limited monopoly of unpatented articles through the use of a patent.*" (Emphasis added)

Mr. Rich answered:

> "The answer is that (d) would not prevent their being held, the acts being held to be misuse."

Mr. Fugate, speaking immediately after Mr. Rich, did not disagree.

Then, in the last comment on the matter (A-154), Mr. Rich made it clear that one still might be guilty of misuse even though subsection (d) were enacted, stating that if a patent owner goes beyond the three specific acts enumerated, and does other acts which amount to misuse, then the misuse doctrine would be applicable.

Thus, even though the Department of Justice originally contended that § 271(d) would allow tying arrangements and that Mr. Rich so construed it, the ultimate result was that Mr. Crumpacker rejected this construction, Mr. Rich disavowed it, and the Department of Justice dropped its contention. Unquestionably, the intent was not to allow the use of patents to effect tying arrangements.

III. The Decision Below is in Conflict with Aro II.

Respondent would have this Court believe that *Aro II* held merely that the knowing sellers of replacement convertible tops were subject to liability as contributory infringers. However, the opinions in *Aro II* went much further.

Among the issues determined in *Aro II* was the effect of an agreement in which CTR, the patent owner, granted Ford a license to sell, and Ford's customers a license to use, the patented combination, but restricted replacement of the fabric to that provided by Ford. The Court specifically stated that where the patentee has granted to a purchaser an implied license to use, "he cannot impose conditions concerning the unpatented supplies, ancillary materials, or components with which the use is to be effected" (377 U.S. at 497), citing *Mercoid* and similar cases. The Court further noted:

> "It follows that here, where the patentee has by the Ford agreement *explicitly* authorized the purchasers to use the particles, the patentee cannot thereafter restrict that use by imposing a condition that replacement parts may be purchased only from a licensed supplier" (377 U.S. at 497, emphasis by the Court).

The Court could not have stated more clearly that where a license under a patent is granted, it cannot be conditioned on the purchase of unpatented materials from the patentee or his licensee. Nevertheless, the Fifth Circuit in its decision below has held that such conditioning is proper.

In *Aro II*, CTR derived revenue from acts which, if performed by another without its consent would constitute contributory infringement of the patent, in that it, through its licensee Ford, derived revenue from sale of the replacement fabric for the patented convertible tops; it licensed others to perform acts which if performed without its consent would constitute contributory infringement of the patent, in that it licensed Ford and General Motors to sell the replacement fabric; and it sought to enforce its patent rights against infringement and contributory infringement by bringing suit against Aro.

Thus, CTR did all of the things specified in parts (1), (2) and (3) of § 271(d), yet this Court held that it could not condition a license on the purchase of the unpatented fabric from a licensed supplier. In the case at bar, however, such conditioning was held to be permissible. A clear conflict is presented.

IV. The Only Pertinent Court of Appeals Decisions Support Petitioners

In each of the cases cited at pages 13 and 14 of the Petition herein, the courts of appeals found that the patent owner misused its patent when it granted licenses only

with the purchase of unpatented materials from it, and refused to allow prospective licensees to obtain the unpatented materials from any other source. Respondent does not dispute that each of those cases so found, but merely argues that they are distinguishable on their facts. Again, however, as in its discussion of the *Aro* cases, respondent fails to mention the facts in those cases which are analogous to the facts in the present case.

For example, in *McCullough Tool Company* v. *Well Surveys, Inc.*, 343 F 2d 381 (10 Cir 1965), Well Surveys ("WSI") argued, as respondent does here, that its failure to give a licensee an express license to manufacture the instruments used to practice the patented method was not a misuse. (343 F2d at 407). The trial court held that the practical effect of WSI's license agreements was to require licensees to purchase the necessary instruments from WSI. The Court of Appeals held:

> "There is no showing that this finding is clearly erroneous and it establishes the prohibited 'tying arrangement' . . ." (343 F 2d at 407).

The Court did not mention § 271(d), but there would have been a need to mention it only if it had had an effect upon the result.

In *Ansul Co.* v. *Uniroyal, Inc.*, supra, the patent was, as respondent notes, found unenforceable because of various violations of the Sherman Act. One of these was "failing to permit the practice of the invention by those who desire to purchase the unpatented product from the patentee's competitors" (*Ansul Co.* v. *Uniroyal, Inc.*, 306 F. Supp. 541, 562 (SDNY 1969)). In that case, in which Uniroyal gave an implied license with the sale of the unpatented product, it was held that offering a separate license at a royalty rate too high to allow viable competition did not avoid misuse

(306 F. Supp. at 564). The Court of Appeals agreed (448 F. 2d at 882, fn.4).

Respondent has not pointed to any facts which distinguish the present case; in truth, there are none.

The only court of appeals case relied upon by respondent is not in point. *Rohm and Haas Co.* v. *Roberts Chemicals Inc.*, 245 F2d 693, 699 (4 Cir. 1957) does broadly discuss one effect of § 271, but makes no mention of a patent owner who refuses to license except with the purchase from him of unpatented materials, or of whether § 271(d) protects such a tying arrangement. At the most, this case indicates that since the enactment of § 271, patentees may sue contributory infringers. We do not disagree.

V. Rohm and Haas has a Legitimate Alternative

There are many legitimate ways in which Rohm and Haas can exploit its patented method. For example, they can license applicators or farmer cooperatives, or they can use the common method of a label license to users. Perhaps the easiest way is for Rohm and Haas to grant to other propanil producers the right to pass on a license to their customers. This would insure Rohm and Haas a royalty on all propanil sold for use in the patented method, in addition to its profit on its own sales of propanil. Furthermore, the farmers would then have an alternative, a license which does not require the purchase of propanil from Rohm and Haas. There would be no tying arrangement, no coercion and no misuse.

Rohm and Haas objects that the logical extension of petitioner's position is that Rohm and Haas must either refrain from selling propanil, refrain from patent enforcement, or engage in compulsory licensing. The answer to this is that Rohm and Haas has already voluntarily licensed

its patent, through the licenses implied in law by its sales with labels giving instructions on how to use the material. Having decided to license its patent, it must do so in a legal manner. It must offer an alternative outside the tying arrangement.

Furthermore, compulsory licenses are a proper remedy where patent abuses have been proven. *Besser Mfg. Co.* v. *United States,* 343 U.S. 444, 96 L. Ed. 1063, 72 S. Dt. 838 (1952); *United States* v. *Glaxo Group Ltd.,* 410 U.S. 52, 351 L. Ed.2d 104, 93 S. Ct. 861 (1971).

CONCLUSION

We have not dealt with all the errors in respondent's brief, because we deem the foregoing a sufficient rebuttal to satisfy the Court that the Petition should be granted.

Respectfully submitted

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